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FM AMEMBASSY ASUNCION
TO RUEHC/SECSTATE WASHDC IMMEDIATE 6995
INFO RUCNMER/MERCOSUR COLLECTIVE PRIORITY
RUEAWJB/DEPT OF JUSTICE WASHDC
RHMFISS/HQ USSOUTHCOM MIAMI FL
RUEKJCS/SECDEF WASHDC
RHMFISS/USSOCOM MACDILL AFB FL

UNCLAS ASUNCION 000384

SIPDIS

TO INL/LLP ASMITH, DGRAHAM, WHA/BSC KBEAMER

E.O. 12958: N/A
TAGS: [SNAR](#) [PGOV](#) [PA](#)
SUBJECT: MAJORS LIST SUBMISSION

REF: SECSTATE 29120

¶1. Below find Post's submission on the Government of Paraguay's cooperation on counter-narcotics as requested in reftel A.

Cultivation/eradication

¶2. The USG asked the GOP to reduce the cultivation of marijuana in Paraguay, and to focus eradication efforts in national parks and surrounding areas.

--Paraguay has become the largest producer of cannabis in South America, with a high content of tetrahydrocannabinol (THC). The crop is primarily cultivated in the departments of Amambay, San Pedro, Canindeyu and Concepcion and it is harvested year round. Cannabis production has dramatically increased in recent years, spreading to nontraditional rural areas of the country. There are approximately 5,500 hectares (UN and SENAD estimates) of cannabis scattered around the country.

--In 2007, SENAD destroyed 1,552 hectares of cannabis. SENAD has made significant advances by increasing the amount of marijuana cultivations destroyed and by reaching more remote areas than in previous years.

Consumption / Demand Reduction

¶3. The USG asked the GOP to extend SENAD's Demand Reduction Program to Pedro Juan Caballero (PJC) in addition to the Central Department.

-- SENAD has the principal coordinating role under the "National Program against Drug Abuse" and works with the Ministries of Education and Health and several NGOs on demand reduction. Unfortunately, SENAD's budget for the Demand Reduction Program is very limited, which prevents SENAD from reaching out to more areas of the country on its own. SENAD's Prevention Unit does significant outreach work primarily in schools in the Central Department. This year, SENAD conducted demand reduction activities in PJC with positive results.

-- The Prevention Unit held 1,476 workshops in 247 schools reaching 45,000 people including students, parents and teachers with its drug awareness program during 2007. These figures represent an increase in comparison to the prior year's statistics, reflecting a meaningful GOP effort to increase drug awareness in its population.

Trafficking and interdiction

14. The United States Government (USG) asked the GOP to continue to keep pressure on major international drug organizations through investigations, arrests, and prosecutions of their key members and seizures of their assets.

--Paraguay is a major transit country for Andean cocaine destined for Brazil, other Southern Cone markets and Europe. According to SENAD and DEA Country office, 30-40 MT of cocaine annually transits Paraguay's porous borders en route to Brazil and other Southern Cone markets as well as to Europe, Africa and the Middle East, where the commercialization and/or resale value is much higher. Paraguayan marijuana is also trafficked to Brazil, the Southern Cone, and Europe.

--SENAD has taken serious measures to control drugs and their negative effects on the general population by going after major drug trafficking organizations and their assets. In 2007, SENAD's drug seizures broke all existing records since its creation in 1991. SENAD seized 820 kilograms (kg) of cocaine, 100 metric tons (MT) of cannabis and 18 vehicles.

--SENAD arrested several well-known drug traffickers, including Edmar Dois Rei Almeida, Jesus Hernando Gutierrez and six members of his cartel, Jarvis Pavao's stepfather Paulo Larson Dias, and Ronie Alves de Campos. SENAD detained 170 persons and extradited two last year.

--SENAD agents arrested Brazilian national Sandro Jose Olivera (AKA Gordao) on March 13, 2008, an important member of Commando Vermelho. Gordao is wanted by the Brazilian Federal Police for drug trafficking and other crimes. He is also the brother-in-law of Brazil's most wanted drug trafficker, Fernadinho Beira Mar. Gordao ran a trafficking network that supplied the Brazilian interior with marijuana.

--Leoncio Mareco, an associate of Ivan Mendez de Mezquita, was sentenced to 20 years in prison in August 2007 for drug trafficking and money laundering. His wife, Zulma Rios de Mareco, was sentenced to 10 years in prison for money laundering. (NOTE: Both sentences have been appealed, which is the most common tool used by drug traffickers and corrupt official to avoid the weak judicial system. END NOTE).

--Despite SENAD's efforts, the Government of Paraguay's (GOP) ability to prosecute and fight transnational and organized crime is hampered by resource constraints, competing government priorities, weak laws and pervasive public sector corruption. SENAD's total budget is \$1.5 million, of which only \$150,000 is allocated to counter-narcotics operations, while the rest covers salaries and administrative expenses. The Fernando Lugo administration, which will take office August 15, should allocate additional resources to law enforcement agencies and implement legal tools to facilitate investigations, the seizure and forfeiture of assets and prosecution of major offenders.

15. The USG asked the GOP to expand SENAD's operations in Ciudad del Este (CDE) in the tri-border area, to emulate its success in Pedro Juan Caballero (PJC) and to increase efforts to shut down clandestine airstrips in the Chaco region that are used by drug traffickers.

-- INL funding permitted SENAD to open a Canine Unit at the airport in Ciudad del Este in 2007. It houses three officers and one dog; they screen airport passengers and cargo for illegal drugs.

-- SENAD opened a new base in PJC in August 2006 on Paraguay's border with Brazil, an area notorious for drug trafficking and other illegal activities. The base allows SENAD to assign upwards of 25 agents to a region which was previously "off limits" to law enforcement personnel because of corruption and lack of state presence. The U.S. provided USD 500,000 to complete this facility to include the construction of a helicopter pad and support facilities. This new facility greatly enhanced SENAD's capability to launch effective operations targeting major traffickers and their activities in the region.

-- SENAD has identified a number of airstrips in the Chaco region used by narcotraffickers. These airstrips are currently under surveillance by SENAD, and several important arrests and seizures have been made in the region.

¶6. The USG asked the GOP to provide adequate funding for SENAD, so that it can continue to execute its responsibilities and conduct operations against major narcotics traffickers.

-- The Paraguayan Congress' decision in 2007 to provide expanded funding for SENAD to hire 50 new SENAD agents represented an important milestone. The newly hired Special Agents are working in different sections of SENAD and completed DEA training in January ¶2008. SENAD continues to operate on limited funding for helicopter fuel and is unable to expand its operations throughout the country due to budget constraints. SENAD continues to request that the Paraguayan Congress provide it with additional funding.

Precursor chemicals

¶7. The USG asked the GOP to regulate the importation of pseudo ephedrine, and to improve the law enforcement efforts for other cocaine precursor chemicals.

-- Paraguay has a chemical control law. However, enforcement is weak. SENAD and the Health Department have limited resources to enforce the law throughout the country, but strictly regulate individuals or companies obtaining precursor chemical permits.

-- The GOP through SENAD and the Department of Health also regulates the importation of pseudo ephedrine. Violators can be charged with illegal importation of controlled substances and other related crimes, such as tax evasion, and can face sentences of five or up to ten years in jail.

-- DEA is noting an emerging trend in ephedrine/psuedoephedrine production and trafficking in Paraguay. SENAD made two important seizures of ephedrine destined for Mexico in May-June in Asuncion.

Money Laundering

¶8. The USG asked the GOP to allocate additional financial and human resources to SEPRELAD's FIU, SENAD's UIDF, and the Attorney General's Office (Fiscalia), to enable them to effectively investigate and prosecute money laundering, terrorist financing and other financial crimes.

-- The Fiscalia incorporated their Economic Crimes Unit and their Public Corruption Unit into one unit, and then in 2007 added three financial crimes prosecutors. This allowed for additional prosecutors to engage in cases involving money laundering. These prosecutors will need to be trained in the prosecution of economic crimes, particularly under the new penal code which will enter into force in 2009.

¶9. The USG asked the GOP to apply other initiatives that would improve the effectiveness of the GOP's anti-money laundering regime including: conducting outreach activities to sensitize financial institutions about reporting requirements and improving coordination and information sharing protocols between the SEPRELAD FIU, the SENAD UIDF and the Public Ministry that prevent compromise of law-enforcement-sensitive information.

--Bank secrecy laws in Paraguay do not prevent banks and financial institutions from disclosing information to bank supervisors and law enforcement entities. Bankers and others are protected under the anti-money laundering law with respect to their cooperation with law enforcement agencies. The Superintendence of Banks enforces these reporting obligations for banks, but they are not enforced for other financial institutions. In November 2007, the Ministry of Industry and Commerce issued new regulations that define reporting requirements and sanctions for noncompliance for the insurance industry and credit unions.

--In recent years, the GOP has made significant efforts to

strengthen its anti-money laundering secretariat (SEPRELAD), but weak leadership and suspicious activity caused SEPRELAD to falter in the first half of 2007. Since August 2007, when Gabriel Gonzalez became its new director, SEPRELAD made significant progress. SEPRELAD has sought to improve information sharing with other financial intelligence units and has signed agreements for information exchange with regional FIUs. In addition, Gonzalez is working on creating information sharing mechanisms for Paraguayan law enforcement agencies.

--SEPRELAD entered a backlog of 3,000 Suspicious Activity Reports (SARS) since August 2007. It also hired several new analysts, who have been vetted and trained. SEPRELAD incorporated information from the Trade Transparency Unit (TTU) into its analyses of discrepancies in trade data that could be indicative of customs or tax fraud, trade-based money laundering, or terrorist financing.

¶10. The USG asked the GOP to control the movement of bulk cash across its borders as it is another key issue that calls for greater active involvement by the GOP.

--Although the airlines give out forms upon entry into Paraguay to declare cash, the government does not utilize the forms. Customs does not enforce the administrative law that requires the reporting of cash brought into or taken out of Paraguay.

¶11. We asked the GOP to refocus SEPRELAD into a more effective and efficient organization, providing it with greater independence and a new bureaucratic structure.

--The Government of Paraguay took a number of positive steps in 2007 to combat money laundering, particularly with the passage of the new penal code and the GOP's money laundering convictions. However, it should continue to pursue other initiatives to increase its effectiveness in combating money laundering and terrorist financing. Most important is passage of terrorist finance legislation that brings Paraguay into compliance with its international obligations.

¶12. We asked the GOP to ensure SEPRELAD received adequate financial and human resources to operate as an effective and fully functioning FIU.

--SEPRELAD continues to lack adequate financial and human resources to operate as an effective and fully functioning FIU. Paraguay will be suspended from the Egmont Group in June 2008 without terrorist finance legislation, and narrowly escaped expulsion from the Financial Action Task Force for South America (GAFISUD) due to a failure to pay USD 76,000 in membership dues. In December 2007, SEPRELAD made a partial payment of its membership dues. In February, the GOP paid its dues in full and incorporated its dues into SEPRELAD's annual budget. The GAFISUD payment was a positive sign that the GOP is concerned about meeting its international obligations.

Legislative Measures

¶13. The USG asked the GOP to adopt an anti-money laundering and anti-terrorist financing legislation in order to meet its international obligations.

--Congress passed a new penal code amending 70 criminal statutes in December 2007, which includes a new money laundering statute which makes money laundering an autonomous crime punishable by up to five years in prison. President Duarte vetoed three statutes of the penal code, which is now again pending in Congress for final approval. The new laws, including the money laundering statute, will go into effect one year from the date of Congress' final approval. Prosecutors will need training on the effective use of the new money laundering statute.

--Paraguayan authorities have also drafted a new criminal procedures code. These revisions will help move their judicial system toward a true oral system instead of the current hybrid accusatory-inquisitive mix which has been shown to be ineffective.

-- The three new investigative units within the Ministry of Finance are using the tools they have at hand to investigate violations of Paraguayan law. Tax, customs, unjust enrichment, and public corruption cases are being referred to the Public Ministry for prosecution.

Official Corruption

¶14. The USG asked the GOP to take active measures to rid the ranks of law enforcement of prosecutors and judges suspected of having links to drug traffickers, money launderers and others who commit drug related crimes.

-- There is no evidence that the government or any senior official facilitates the distribution or production of narcotics or other controlled substances. Nevertheless, corruption and inefficiency within the Paraguayan National Police (PNP) and the judicial system negatively affects SENAD operations. Combating official corruption remains a considerable challenge for the GOP.

-- The Lugo administration should take serious measures to enable effective investigations leading to the arrest and prosecution of major drug traffickers and corrupt officials. Many arrests are made, but many cases are dismissed on technical grounds (e.g., expiration of a statute of limitations) or on appeal. For example, Christian Villalta was sentenced on drug charges in June 2006 for cocaine trafficking, but he was released on technical grounds; he served less than three years of his sentence. (NOTE: Villalta was the son of Faustino Villalta, the Colorado party leader in PJC and a defense attorney for drug traffickers, who was shot and killed by gunman in front of his house in October 2006. END NOTE). In another case, Roberto Carlos Benitez Salinas, Mendes Mesquita's accountant, was recaptured by the Argentinean authorities and extradited to Paraguay after he escaped Paraguayan law enforcement a few years ago. Benitez is now being charged with money laundering USD 15 million. Notwithstanding Benitez' previous flight from authorities, the court set a low bail for him. (NOTE: The prosecutor appealed the low bail, and while the case risked dismissal due to an expiring statute of limitations, trial is now scheduled to begin August 4. END NOTE). These cases demonstrate judicial corruption that plagues Paraguay's counternarcotics efforts. Additionally, several anti-corruption prosecutors opened cases against government officials last year which were impeded by corruption and inefficiency which frequently resulted in dismissals on technical grounds.

¶15. We have asked the GOP to address illegal activities in the customs service and Finance Ministry (tax authority).

-- In 2006 and in 2007, under the MCC Threshold Program, Paraguayan authorities in the Finance Ministry and customs agency conducted internal investigations of improper conduct. Over 80 cases were referred to the Public Ministry for prosecution. Members of USG-supported units voluntarily took polygraph tests which demonstrated their political will and cooperation to root out corruption.

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